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SIMPLIFYING STUDENT AID: THE CASE FOR AN EASIER, FASTER, AND MORE ACCURATE FAFSA

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EXECUTIVE SUMMARY

Each year, more than 16 million college students and their families complete the Free Application for Federal Student Aid (FAFSA). They spend hours answering needlessly complicated and intrusive questions that undermine the fundamental goal of student aid: to help more students attend and graduate from college. In this report the Council of Economic Advisers (CEA) and the National Economic Council (NEC) discuss the need to simplify the process of applying for federal student aid, describe President Obama's plan for simplification, and analyze the potential impact of such improvements on Pell grant recipients.

The current aid application process is needlessly complicated, burdensome and difficult to verify.

- The current FAFSA includes 153 questions and requires families to report detailed information about income and assets, much of which has little or no impact on student aid eligibility but is difficult to understand and pull together.
- With more than one million students who likely qualify for aid failing to complete an application, it is clear that a central goal of student aid programs – ensuring that college is within the financial reach of all qualified students – is not being met.
- The questions on assets and savings are complex and largely unverifiable, providing opportunities for gamesmanship. Moreover, their inclusion in the financial aid formula for some students can penalize families who have saved for postsecondary education expenses.

The Obama Administration is taking three steps to make it easier for students to apply for aid and to make college more accessible:

- The online application is being streamlined, with millions of students already using a shorter, simplified form; more improvements are on the way.
- In January, some students and parents will be able to electronically retrieve their tax information from the Internal Revenue Service (IRS) and transfer it into the online FAFSA.
- Congress is considering the Administration's proposal to simplify the eligibility formula. This would make it possible to remove 29 of the most difficult FAFSA questions regarding savings and income adjustments that are not available on tax returns.

Together, these reforms will create an application that is simple to complete, requiring only easily obtainable personal information, and results in verifiable eligibility determinations.

President Obama is also seeking historic investments in student aid, including over $115 billion in Pell grants over the next 10 years.[1] Virtually all students eligible for Pell grants – 99 percent – would receive larger Pell grants under his proposals. The President's plan to reform the federal financial aid application will help millions more students benefit from these investments.

[1] Executive Office of the President. Office of Management and Budget (2009).

I. INTRODUCTION

Each year, the federal government makes a large investment in college affordability. In fiscal year 2009, this investment includes $25 billion in Pell grant scholarships and $87 billion in student loans that are helping over 13 million students to attend a four-year college, university, community college, or trade school, and the President's 2010 budget calls for a 12 percent increase in these programs.[2] Without financial aid, many of these students would not be able to attend a postsecondary institution and complete a degree or certificate. Academic research confirms the importance of financial aid. For example, economist Susan Dynarski estimates that a $1,000 decrease in the net price of college (through, for example, a $1,000 increase in grant aid) increases the probability of attending college by 4 percentage points and increases the number of years of college completed by about 0.2 years.[3]

Despite the existence of student aid, college remains an elusive opportunity for many. While nearly 80 percent of high-income students attend college immediately after high school, only about 63 percent of middle-income students and 55 percent of low-income students do so.[4] Low-income students also have lower college completion rates: approximately 46 out of 100 high-income high school graduates will obtain a postsecondary degree or certificate, compared to only 23 out of 100 low-income high school graduates.[5] While finances are not the only hindrance, they are important as these disparities by family income are not fully explained by differences in students' college preparedness.[6] Despite significant strides in expanding access to education, many young people's educational opportunities are still curtailed by their financial circumstances.

If the U.S. is to remain economically competitive in the 21st century, it is critical that we reverse the stagnating levels of educational attainment observed over the past 30 years. The U.S. has slipped behind other countries in terms of postsecondary attainment and, partly as a result, has seen growing levels of income inequality.[7] To achieve the goal of leading the world in college completion by 2020, President Obama has proposed a historic expansion of Pell grants and higher education tax credits, as well as reforms to the guaranteed and Perkins student loan programs. However, these expansions in federal financial aid will only be effective if individuals know they are available and are not discouraged from applying for them. Thus, a key component of the Administration's college opportunity agenda is to reform the student aid need analysis formula and thereby simplify the FAFSA.

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[2] U.S. Department of Education (2009b).
[3] Dynarski (2003).
[4] U.S. Department of Education (2009d).
[5] U.S. Department of Education estimates.
[6] See, e.g., Ellwood and Kane (2000).
[7] Goldin and Katz (2008).

This report reviews the evidence that the current federal student aid application hinders postsecondary educational attainment, particularly among low-income students. It also presents the Obama Administration's three-part strategy for significantly simplifying this process. First, applicants are already benefitting from improvements in the online FAFSA, with more streamlining to come in January 2010. Second, the Administration is in the process of allowing applicants to access data they have provided to the IRS and electronically transfer them to the Department of Education. Finally, Congress is considering legislation to eliminate most questions about savings and income adjustments that are not available from the IRS, further reducing the time required to complete the form while also improving the accuracy and verifiability of the information. An analysis of data on financial aid applicants suggests that these changes would have a very small impact on student aid eligibility and the amount of aid granted. This finding suggests that the proposed simplification of the financial aid application will help increase college enrollment by making college more affordable for millions of eligible students.

II. THE COSTS OF COMPLEXITY: WHAT'S WRONG WITH THE CURRENT FAFSA

An Unnecessary Chore for 16 Million Students a Year

For more than 16 million students a year, applying for financial aid is a critical step toward a postsecondary education. Average public two-year college tuition and fees are over $2,400. For four-year colleges and universities, tuition and fees average $6,600 at public institutions (for in-state students) and over $25,100 at private ones. Books, transportation, and living expenses add thousands of dollars more to college costs.[8]

All federal aid applicants must submit the FAFSA. The form is six pages long and has 153 questions, requiring detailed information about a family's financial circumstances. Students and their families must answer questions about last year's income, payments made to tax-deferred pension and savings plans, investments and real estate, IRA deductions and untaxed distributions, untaxed portions of pensions, and other forms of income. All of these questions make the FAFSA longer and more complex than most tax forms. For comparison, the 1040EZ tax form is one page and asks just 37 questions and the 1040A is two pages with 83 questions.

The detailed financial questions are intended to target federal student aid to those most in need. However, research suggests that the financial detail and associated complexity yield only minimal improvements in targeting while requiring a great deal of time and effort for applicants,

[8] College Board (2008b).

institutions and the federal government.[9] It can take many hours to understand the rules, gather information, and complete the form.[10] These are difficult tasks for anyone, and may be particularly difficult for students hoping to be the first in their families to attend college. Perhaps unsurprisingly, the complexity of the form has created a market for private companies that charge families for help. The web site FAFSA.com charges $80 to $100 per form and gets tens of thousands of customers a month during application season.[11]

Making matters worse, many families must submit their income information multiple times. Tax returns are due in April, but many schools require the FAFSA by February or March. As a result, millions of families enter preliminary estimates in the FAFSA and are asked to correct them later, after completing their tax returns.

Concerned that applying for financial aid has become overly burdensome to students and their families, a blue ribbon panel of student aid experts assembled by the College Board recently made simplification of the process its first recommendation.[12] Others who have called for a simplified student aid application include the Spellings Commission on the Future of Higher Education, the American Council on Education (ACE), the National College Access Network (NCAN), The Institute for College Access and Success (TICAS), the National Association of Student Financial Aid Administrators (NASFAA), the United States Student Association (USSA), and the United States Public Interest Research Group (US PIRG).

An Obstacle for Low-Income Students

Complexity obscures the true cost of college to families

Not only does the current student aid application cost students and their families time and frustration, but its complexity also makes it difficult for students to predict their aid eligibility and the true cost of college prior to enrollment. The result is that the entire financial aid process hinders postsecondary educational attainment for low-income students from the very start.

The Advisory Committee on Student Financial Assistance finds that lack of information and misinformation about aid is a serious deterrent to applying for aid among community college students.[13] Of full-time students who did not apply for financial aid, 39 percent said they thought they were not eligible for aid, even though most likely were. Interviews with aid administrators

[9] On the costs of complexity, see Kaplow (1990) and Kaplow (1996). On the impact on targeting, see the analysis presented below.
[10] Dynarski and Scott-Clayton (2007).
[11] Lewin (2009).
[12] College Board (2008a).
[13] U.S. Department of Education (2008).

confirmed that often students do not know how aid works or, in some cases, even that aid is available.

Economists Susan Dynarksi and Judith Scott-Clayton (2007) make the following analogy:

> Imagine a car dealer who told customers about a rebate incentive only after they had agreed to purchase a car. What would happen? Customers who were willing to buy at the pre-rebate price would be pleasantly surprised and drive out of the dealership with their wallets a little fuller than they had anticipated. Customers scared off by the sticker price would never even learn about the rebate and would walk out not knowing that the car they wanted was affordable.

For student aid to be effective in increasing college enrollment, students must be able to predict how much aid they will receive. Simplifying the student aid formula and application process would allow families to estimate aid amounts as they are deciding whether college is an affordable option.

Complexity hinders application for financial aid and college enrollment

Research from other social programs shows that relatively minor hurdles like a 401(k) enrollment form can have large effects on behavior. Economists Brigitte Madrian and Dennis Shea (2001), for example, find that automatic enrollment dramatically increases employee participation in retirement plans. For workers earning less than $20,000, enrollment jumps from 13 percent to 80 percent when the default option is changed to enrollment. Similarly, economist Janet Currie (2006) finds that take-up rates of social programs increase when eligible participants are automatically enrolled and administrative barriers are reduced.

Research in education similarly suggests that the complexity of the FAFSA presents a high hurdle. Jacqueline King of the American Council on Education finds that approximately 1.5 million students who would have been eligible for Pell grants in 2003-04 did not complete the FAFSA.[14] Similarly, data from the *National Postsecondary Student Aid Study* indicate that over 30 percent of full-time community college students with family incomes below $50,000 did not apply for federal aid.[15] Since many of these students are eligible for Pell grants, this is clear evidence that federal aid is not reaching all students for whom it is intended. First-hand observer Pat Watkins, the financial aid director at Eckerd College, summarizes it as, “Students who would be eligible for aid see how complex the form is, get what I call ‘form fright’ and just stop.”[16]

[14] King (2006).
[15] CEA analysis of data from the 2003-04 *National Postsecondary Student Aid Study*. Figures are similar for dependent (32% of full-time community college students with family incomes below $50,000 did not apply for aid) and independent (31% of full-time community college students with own plus spousal income below $50,000) students. See also U.S. Department of Education (2008).
[16] Lewin (2009).

The most direct attempt to test the impact of complexity in the financial aid application process is an on-going experiment by student aid experts in partnership with H&R Block.[17] One randomly-selected set of participants was given application assistance with a FAFSA form that was already partially completed with tax information, while another was given the traditional FAFSA form and no assistance. The assistance and simplified form increased the share of high school seniors and recent graduates who completed the FAFSA by 39 percent. FAFSA completion increased by 58 percent among independent students who had previously attended college and by 186 percent among independent students who had never been to college.

Not only did participants who were selected to receive assistance with a simplified form complete the FAFSA at higher rates, but they were more likely to actually enroll in college as well. Assistance with the FAFSA application increased college enrollment by nearly 30 percent for graduating high school seniors and by 20 percent for older, independent students who had not previously attended college, with a particularly strong effect for students with incomes less than $22,000.[18]

These findings are consistent with more general evidence on the complexity of the college and financial aid application process. In a survey of low-income high school students in Boston, for example, researchers Christopher Avery and Thomas Kane (2004) report that even those students with high ambitions and high implicit valuation of college education were discouraged by relatively minor hurdles in the college application process.

Complexity is Administratively Costly and Information is Difficult to Verify

The financial aid system relies on students and families to accurately report their incomes and assets. Colleges are only required to verify the information contained in up to 30 percent of the aid applications that their students submit. Even in these applications, there are only five types of data that must be verified: household size, number of family members enrolled in college, adjusted gross income, taxes paid, and untaxed income (including Social Security benefits, child support, IRA/Keogh deductions, foreign income, earned income credit, and interest on tax-free bonds).[19] Students chosen for verification are required to submit copies of their tax returns to their schools. Tax returns are compared to data submitted on the FAFSA, and any discrepancies are resolved by making corrections to the FAFSA data. In rare cases, criminal prosecution is a possibility.

[17] Bettinger, Long, Oreopoulos, and Sanbonmatsu (2009).
[18] The effect for all independent students was not significantly different from zero (p value = 0.14) but the effect for students with low incomes was (p = 0.02).
[19] U.S. Department of Education (2007).

This system of verification has at least three drawbacks. First, it is time consuming and costly for both students and colleges. Colleges must handle nearly 4 million paper copies of tax returns each year.[20] The Department of Education's Inspector General has estimated that this process cost $80 per application in 1999-2000, and the Advisory Committee on Student Financial Assistance estimates that the total cost is at least $432 million annually.[21]

Second, because the system relies on paper copies of tax returns submitted by students, there is no assurance that the tax returns submitted to colleges are the same as those filed with the IRS. The need to store paper tax returns in college offices also creates risks to students' privacy and to the security of their financial information.

Third, the system fails to identify many instances in which students misreport their financial information. Only about one-third of applications are verified, so misreporting on the other two-thirds goes undetected and unresolved. Even on applications that are subject to the verification process, most of the reported information – including reported asset holdings – is not verified.

The evidence suggests that the verification system does not work well. Comparing FAFSA income reports with the same families' actual tax returns, the Department of Education found that misreporting of income information on the FAFSA led to over $600 million in Pell grant overpayments in 2001 and 2002.[22] Misreporting of information unavailable from the IRS may create additional overpayments.

Asset Tests Discourage Savings and Are Vulnerable to Fraud

The FAFSA includes six questions about assets and savings, and the information provided enters into the formula for student aid eligibility. These questions exacerbate the complexity and add opportunities for gamesmanship. Moreover, in some cases their inclusion can penalize responsible families who have saved for college expenses.

Most assets are not considered in the calculation of a family's ability to pay for college. But student savings and investments above a certain level are assessed at a 20 percent rate (in other words, each dollar of savings increases the student's estimated ability to pay by 20 cents). Some parental assets are assessed on a sliding scale up to 5.6 percent.

These assessments apply to families who have taken responsibility and saved for college, such as through 529 college saving plans. They also apply to all other forms of savings outside of the home, family business or farm, and retirement accounts. Consider a student who already has high personal pre-college savings. For each additional $100 that she saves, her expected contribution

[20] U.S. Government Accountability Office (2003).
[21] See footnote 55 of U.S. Department of Education (2005) and sources cited therein.
[22] U.S. Government Accountability Office (2003).

towards her college education over four years would rise by nearly $60. Similarly, the parents of two children who enter college two years apart could be expected to contribute as much as $300 more towards college expenses during the six years their children are in school for each additional $1,000 that they save.[23]

As most families have low levels of savings and need calculations only consider assets above a certain level, Pell grants and other federal student aid are not often affected by family savings.[24] However, nearly all students are still required to provide this information, which may create a widespread misperception of the federal rules. Moreover, the federal endorsement of asset tests may encourage states and institutions to include savings in their aid calculations. The evidence indicates that these financial aid calculations generate a disincentive for families to save.[25] Researchers have documented that families respond by reducing their assets or shifting assets into untaxed categories.[26]

As a consequence, many observers see the savings provisions as unfair and inefficient. Eliminating the tax on savings "would make the system fairer, simpler, and more honest," according to Kathleen and Martin Feldstein (1997). Former Macalester College president and current president of the Spencer Foundation Michael McPherson (1998) observes that, "people have a sense of inequity" when diligent savers receive less aid "than somebody who has been profligate who has had the same income profile."

The asset and savings provisions are also the most vulnerable to fraud and gamesmanship. Because families estimate the value of their assets on the date they complete the FAFSA, it is virtually impossible to validate the accuracy of the amounts reported months later, and colleges are not required to attempt to do so. Twelve of the top 15 strategies for students to maximize their aid eligibility, according to Finaid.org, involve manipulating their family's measured assets.[27]

III. The Obama Plan to Simplify the Student Aid Application

The Obama Administration is working to significantly reform the FAFSA to make it easier for students to apply for financial aid and learn their aid eligibility, while also improving compliance and increasing the incentive to save for college. The Administration's three-part plan includes

[23] These scenarios assume that the students enroll in college for four years.
[24] The federal student aid formula ignores the assets of dependent students who qualify for the simplified needs test because the family has less than $50,000 in income and is eligible to file the 1040EZ or 1040A tax form. It also ignores parental assets that fall below a threshold which increases with the age of the parent up to $75,200.
[25] See, e.g., Reyes (2008), Dick and Edlin (1997).
[26] See e.g., Reyes (2008), Dick et al. (2003), and Feldstein (1995).
[27] Finaid.org (2009).

redesigning the online form, allowing students to electronically transfer existing data from their tax returns, and simplifying the formula to calculate the amount of aid a student might receive.

A User-Friendly Online Application

Although more than 90 percent of students apply for financial aid online, until recently the online form largely reproduced the paper version of the application, taking little advantage of the interactive potential of the web. The Department of Education has begun improving the FAFSA on the Web form through enhanced "skip logic," which tailors the form to individual students so they no longer need to answer questions that are irrelevant to them. As a result, students will be presented with fewer screens and fewer questions.

The Department of Education implemented the first improvements this summer. As a result of these steps:

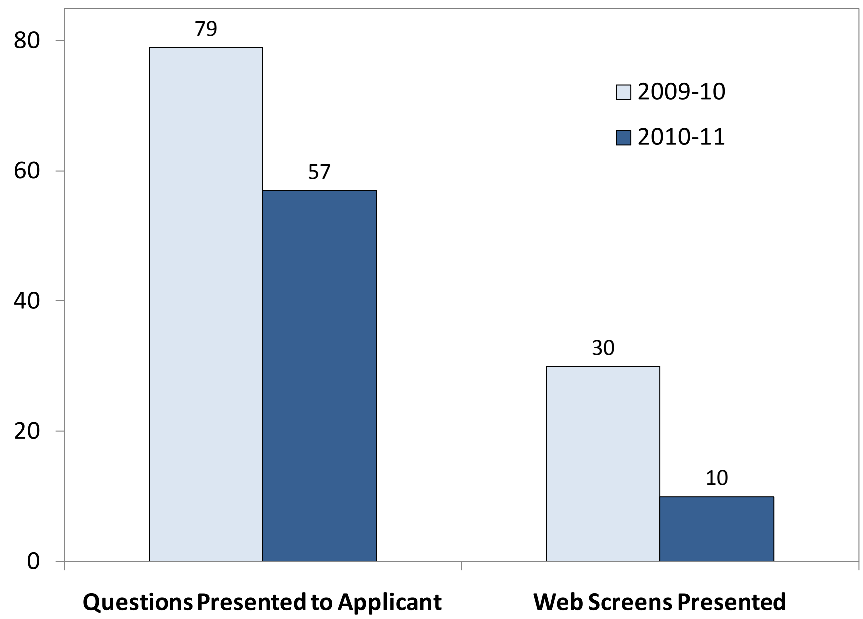
- Students who are at least 24 or married – who are automatically exempted from providing their parents' financial information – are now able to skip 11 questions used only to determine whether parental information is necessary.

- The existing three questions about homelessness status are now preceded by a single screening question, allowing the vast majority of students to skip the remaining questions while retaining the additional clarifying questions for the small number of applicants for whom they are relevant.

- Men over the age of 26 are no longer asked if they wish to be registered for the selective service, since they are not required to do so.

Additional skip logic improvements will be implemented in January 2010. For example, students who qualify for the simplified needs formula will no longer be asked for asset information, since it is not used to determine their aid eligibility. Questions about untaxed income and other financial information will be presented in a simplified and interactive "check box" format on one page. Status indicators, improved help text, and new instructions will guide applicants through the form with greater clarity and direction. Figure 1 shows the impact of these improvements on a hypothetical student's application experience. Compared with the old form, this student will have to answer nearly one-third fewer questions and page through two-thirds fewer web screens in order to complete the FAFSA.

Figure 1: New FAFSA Web Form with Enhanced Skip Logic Compared to Current Form



Note: Question and screen counts pertain to a 17-year-old female U.S. citizen who lives with both parents, receives a reduced-price school lunch, does not have a driver's license, is not employed, and has the same state of legal residence as the state of her mailing address. Her parents file a 1040A tax return and have Adjusted Gross Income (AGI) of $45,000.

Students are also now provided instant estimates of Pell grant and student loan eligibility after they finish the form, rather than having to wait weeks to obtain results. In addition, when FAFSA applicants list colleges to which they plan to apply, they are presented with each college's reported retention, graduation, and transfer rates. The confirmation page also provides this information and a link to the Department of Education's College Navigator website, which includes detailed information on individual institutions' programs, tuition levels, and graduation rates.

Use of IRS Data

To further facilitate the completion of the online FAFSA, in January 2010, students who use the online FAFSA to apply for financial aid for the remainder of the 2009-10 academic year will be able to electronically retrieve their relevant tax information from the IRS and transfer it to their FAFSA. Students will be able to click on a link that allows them to retrieve income information from the IRS website to complete the form. The Administration plans to evaluate this pilot as it continues to examine how to expand the electronic retrieval option to more students in the future.

Simplifying the Formula

Many of the most time-consuming questions on the FAFSA cannot be answered with IRS data because they require information that is not reported on tax returns. Instead, students must collect information from multiple sources about assets as well as untaxed and other unusual forms of income for themselves and their parents or spouses. The student aid process could be further streamlined by removing many of these data elements from the existing formula.

Believing such simplification is essential to maximizing the power of federal student financial aid, the Obama Administration proposes to eliminate all financial questions that are not available from the IRS. This would include six of the most difficult questions to answer regarding savings and investments, which the Administration would replace with a simple check-off asking students and parents whether they own more than $250,000 in savings and investments outside of certain exclusions such as their homes and retirement accounts. The Administration would also expand colleges' ability to adjust aid eligibility to address inequities.

For the vast majority of aid applicants, the asset check-off box would be quick and easy. Most do not have savings even approaching this level. Only four percent of 2007-08 aid applicants had more than $150,000.

The Administration proposal would also remove 23 income-related questions that are not available through the IRS. These items (listed in Appendix Table A1) include untaxed veterans' benefits, child support payments and receipts, and tax-exempt payments to clergy.

IV. THE IMPACT OF THE OBAMA PLAN ON FINANCIAL AID AWARDS

There is little doubt that limiting the financial information on the FAFSA to that reported on tax returns would substantially reduce the burden of applying for aid. However, it is also important to understand its potential impact on individuals' eligibility for aid as well as on the level of their aid awards.

Impact on the Targeting of Aid

The intent of the detailed FAFSA questions is to collect information about sources of income that indicate a family's ability to help pay for college. But in practice many of these questions do little or nothing to improve the targeting of aid to needy students. In nearly every case, fewer than 5 percent of FAFSA applicants have income in these extra categories, and in most cases the percentage is even lower (see Table 1). Moreover, as noted above, responses are largely unverifiable.

Table 1:
Reporting of Non-IRS Subtractions from and Additions to Income by 2009-10 Applicants

Income Adjustment	Parents of Dependents	Dependent Students	Independent Students
SUBTRACTIONS FROM INCOME			
Child Support Paid	1.6%	0.1%	2.1%
Taxable Earnings from Need-Based Employment	0.1%	2.6%	1.1%
Grant Aid Reported to the IRS in AGI	2.4%	3.3%	3.5%
Combat Pay	0.1%	0.0%	0.1%
ADDITIONS TO INCOME			
Child Support Received	6.1%	0.1%	0.4%
Living Allowances for Military, Clergy, Others	1.0%	0.1%	0.8%
VA Non-Education Benefits	0.6%	0.0%	0.8%
Other Untaxed Income	2.2%	0.2%	1.9%

Source: U.S. Department of Education.

Even where the questions have an impact, it is debatable whether they make the distribution of aid more fair or efficient. For example, the current FAFSA requires students to report scholarships that are taxed as income so as to exclude them from income for aid purposes. However, scholarships are only taxed as income if they exceed tuition and other educational expenses. As a result, the current student aid formula reduces the aid eligibility of students who have to work to pay their living expenses but not of those who receive a stipend and do not have to work at all.

Impact on the Distribution of Aid

To better understand the impact of the Obama proposal on student aid awards, data from the Department of Education on financial aid applicants for the academic year 2007-08 were analyzed.[28] FAFSA filers were divided into three groups: dependent applicants, independent applicants without dependents (other than a spouse), and independent applicants with

[28] The analysis was limited by available data. Because the 14 income adjustment questions were grouped together, removing the nine questions unavailable from the IRS required also removing the five questions remaining on the FAFSA. For this reason, the analysis considered more changes than would be enacted by the policy. The Administration's proposal would also allow colleges to adjust aid eligibility based upon the eliminated income adjustments. For these reasons, the true impact of the policy change on aid awards would likely be smaller than is indicated by Table 2. In addition, the analysis did not include potential dynamic effects of proposed reforms, such as an increased number of applicants or a change in applicant income and asset profiles. Also, it relied on income and assets as reported on the FAFSA. These data do not permit an analysis of the impact of asset misreporting, and some of the changes in aid awards that we identify may reflect misreporting of assets rather than changes in families' true aid eligibility.

dependents.[29] The bulk of the analysis focused on changes to Pell grant awards since this is by far the largest student aid program.[30]

The results suggest that removing asset questions and all other financial questions not available through the IRS, while greatly simplifying the application, would have minimal impact on Pell grant eligibility. Table 2 presents the correlations between Pell awards under the current rules and those that would be made under two possible alternative rules, one that disregards assets but keeps the other income questions and another that disregards both assets and any income categories that cannot be obtained from IRS data.[31] For dependent students and for independent students with and without dependents there is nearly a one-to-one relationship between the Pell grant awarded under the current formula and what the student would receive if assets were not included. The relationship between the award amounts under the current formula and that which students would receive if both assets and income not reported to the IRS were excluded is slightly weaker but still very highly correlated.

While the focus of this analysis is on Pell grants, the results are very similar if it is extended to include subsidized student loans. That is, few students would see changes in their eligibility for subsidized student loans if assets and other income were excluded from the financial aid

Table 2:
Correlation of Pell Grant Awards between the Current Formula and Proposed Formula

	All	Dependents	Independents without Dependents	Independents with Dependents
Create Asset Limitation	0.98	0.97	0.99	0.997
Create Asset Limitation and Eliminate Certain Income Adjustments	0.85	0.83	0.85	0.91

Notes: "Create asset limitation" means replacing the six existing asset questions with one check-off question asking whether the family has more than $250,000 in assets. Correlations are computed only over students who are eligible for a Pell grant under one or more of the formulas under consideration.
Source: CEA-NEC analysis of 2007-08 FAFSA data.

[29] Independent students are those who meet at least one of several specific criteria. These criteria include being aged 25 years or older, being married on the day of application, enrollment in a masters or doctoral degree program at the beginning of the academic year, current or past service in the Armed Services, or having legal dependents. Dependent applicants are defined as those who meet none of the independent criteria (Department of Education, 2009c).

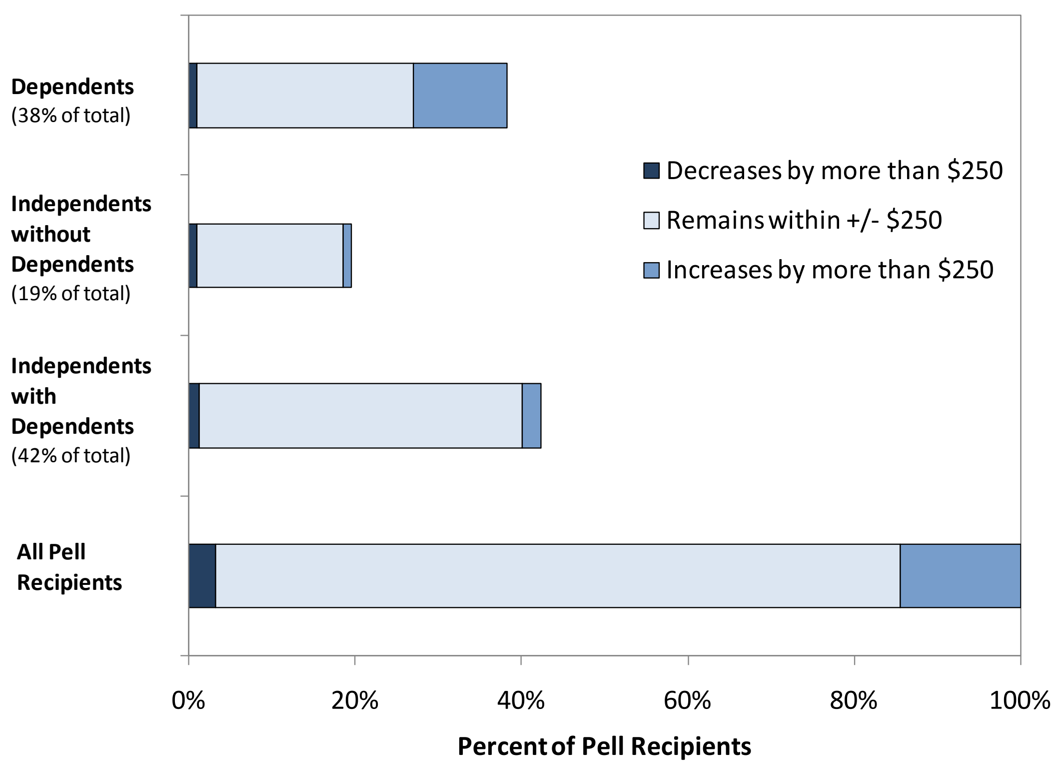
[30] Student loans are nominally larger, at $87 billion versus $25 billion for Pell in 2009 (U.S. Department of Education 2009b), but the face value of loans far exceeds the federal subsidy. In 2008, appropriations for Federal Perkins Loans, Federal Direct Student Loans, and Federal Family Education Loans totaled $9.5 billion (U.S. Department of Education, 2009a).

[31] See the Appendix for a more detailed discussion of the data and distributional tables.

calculation. This is not surprising as the vast majority of students eligible for federal student aid do not have substantial assets. Moreover, subsidized loan eligibility is based upon unmet need, defined as tuition, fees, room, board, and other expenses after family contributions, Pell grants and other scholarships are subtracted. Most federal aid recipients have significant amounts of unmet need and are already eligible for the maximum subsidized loan, so small changes to the needs analysis formula would not affect their eligibility.

The analysis also examined the magnitude of changes in aid for different groups of students. Figure 2 shows the distribution of the actual difference in award size for those students who would receive a Pell grant under either the current formula, the revised formula that excludes both assets and income adjustments, or both. The distributional effects of dropping non-IRS information would be small for current independent student applicants. Pell awards would remain within $250 of their current levels for 88 percent of independent students with

Figure 2: Change in Pell Awards by Dependency Status, Dropping All Non-IRS Financial Questions



Note: Sample consists of students who are eligible for a Pell grant under the current formula or the revised formula. The figures do not include changes to aid awards based upon information that is reported incorrectly.

dependents and 91 percent of independent students without dependents.[32] Among dependent students, nearly two-thirds would receive a Pell grant within $250 of their current awards. Only two percent would see a decrease of $250 or more, and all of these students would still be able to seek income adjustments from their colleges. While dependent students from higher-income families would be somewhat more likely to receive a larger Pell grant, these students are a small percentage of all Pell recipients.

Impact on State and Private Student Aid

States awarded $5.7 billion in need-based grant aid in 2007-08, according to the National Association of State Student Grant and Aid Programs. These awards averaged $468 per student.[33] Many states base the calculations for this aid on the federal formula, often with some additional detail.

When the FAFSA was created nearly 20 years ago it was intended to replace a patchwork of state and college aid forms that created confusion, duplicative paperwork, and unnecessary fees for students and families. For that reason, several questions not needed for federal aid determinations are included on today's FAFSA at the request of some states. An analysis of simplification must consider the entire application process, not merely the federal form.

Simplification of the FAFSA may convince some states to simplify their own formulas. States may decide that relatively small changes to student scholarships are not worth introducing a great deal of complexity into the aid application process. A commission advising Kentucky Governor Steven Beshear recommended the state pledge that, in return for federal simplification, "Kentucky's postsecondary institutions and state financial aid agency will not adopt additional forms or requirements for need-based aid."[34] The State Higher Education Executive Officers have endorsed principles for FAFSA simplification that are similar to those that are discussed here.[35]

It is possible, however, that some states will choose to retain complex student aid formulas that require data beyond what would be in a newly simplified FAFSA. The Department of Education can work with these states to minimize the additional burden on students. For example, under a

[32] The careful reader may wonder how there can be a disincentive to save for college embedded in the financial aid formula if the aid of so few students is actually affected by eliminating assets. As noted above, most aid applicants have few assets and/or have low enough income that their assets are not considered even in the current aid formula. Moreover, for high asset families the marginal effective tax rate on savings and assets – the focus of the studies discussed above – is much higher than the average effective tax rate because, except for dependent students, a portion of net worth is protected from assessment via an age-based allowance.

[33] National Association of State Student Grant & Aid Programs (undated). Statistic is the average per full-time equivalent undergraduate.

[34] Kentucky Higher Education Work Group (2009).

[35] State Higher Education Executive Officers (2008).

current pilot program, New Yorkers completing the FAFSA are sent to New York's online student aid application. FAFSA information is used to automatically complete 32 questions on New York's form, leaving only eight additional questions for students to answer. Other states could develop similar partnerships with the Department of Education.

Private colleges that award substantial amounts of their own aid often require their students to fill out an additional financial aid form, such as the College Board's CSS/Profile. This form is used by only about 250 colleges and universities, according to the College Board.[36] It is possible that simplifying the federal form could lead some additional colleges to use supplemental applications. However, many students attend institutions with small financial aid budgets that are unlikely to adopt a supplemental form.

V. CONCLUSION

Education is a cornerstone of President Obama's effort to build a new foundation for prosperity and economic growth in America. Raising educational achievement produces greater – and more widely shared – economic opportunity. And yet, by tolerating stagnant enrollment and graduation rates, the United States has allowed other countries to pass it by. President Obama has asked every American to commit to at least one year of higher education or career training to help meet a new national goal: by 2020, America will once again have the highest proportion of college graduates in the world.

Simplifying the student aid form will complement the Administration's many other efforts to expand college opportunity. In his first month in office, President Obama signed the American Recovery and Reinvestment Act, which increased the maximum Pell grant by $500 to $5,350 and created the $2,500 American Opportunity Tax Credit for college tuition. He has proposed a budget for next year that would make these policies permanent and would ensure the Pell grant continues to grow steadily by making it an entitlement. Together, the Recovery Act and 2010 budget provide approximately $200 billion in college scholarships and tax credits over the next decade.

In addition, the President's American Graduation Initiative would make a historic investment in community colleges, with a goal of producing an additional 5 million community college graduates by 2020 and strengthening the quality of community colleges to meet the needs of students and employers. The Obama agenda would expand low-cost Perkins student loans to serve 2.7 million students a year. It would also create new federal-state partnerships to improve college access and completion rates. All of these investments are financed in the President's

[36] College Board (2009).

budget, partly by eliminating wasteful bank subsidies in the student loan program. Simplifying the FAFSA is a critical component of this educational agenda. Enabling more young Americans to navigate the federal financial aid process successfully would increase the effectiveness of aid investments and help more students find their way into college and through to graduation.

APPENDIX

The analysis presented in this report measures the change in simulated Pell awards of two FAFSA simplification proposals: (1) dropping the six asset questions and (2) dropping the six asset questions as well as 23 income questions not available through the IRS. It relied on detailed data from the U.S. Department of Education describing a random sample of students who filed a FAFSA for the 2007-08 academic year. Of the approximately 520,000 filers in the random sample, 49 percent were dependent students, 21 percent were independent students without dependents, and 30 percent were independent students with dependents. About one-half of the filers in the sample received a positive Pell amount in the application year. These proportions are representative of the FAFSA filing population as a whole.

To make the sample more representative of the Pell-eligible population, all graduate student filers and undergraduate filers who were ineligible for the Pell both under the actual 2007-08 formula and under the proposed reforms were excluded from the analysis. Restricting the sample gives a more accurate picture of the impact of simplification on students who actually receive Pell awards, rather than students who would have received zero Pell amounts under any formula.

Table A1:
Income and Asset Items Provided by the IRS or Proposed for Removal by Legislation

Items Provided by IRS	Proposed Items to be Removed by Legislation
Tax form filed last year Eligibility to file 1040A or 1040EZ Income tax paid Adjusted gross income Education tax credits IRS deductions and payments to retirement plans Tax-exempt interests Untaxed IRA distributions Untaxed portions of pensions Exemptions	Mother's income from work Father's income from work Student's income from work Spouse's income from work Taxable earnings from need-based employment Cash, savings, and checking accounts Investments and real estate Net worth of businesses and investment farms Combat pay Living allowances paid to members of the military, clergy, and others Other untaxed income such as workers' compensation and disability Child support received Child support paid Payments to tax-deferred pension and savings plan Grants and scholarship aid included in AGI Veterans' non-education benefits Other money received (students only)

Source: U.S. Department of Education.

Table A2:
Distribution of Changes in Pell Amounts When Existing Asset Questions are Replaced with a $250,000 Limitation on Assets

Dependents				
Taxable Income	**% of Recipients**	**Pell Increases over $250**	**Pell Within +/- $250**	**Pell Decreases over $250**
All	100%	6%	94%	0%
$0 to $9,999	25%	2%	97%	0%
$10,000 to $19,999	23%	3%	96%	0%
$20,000 to $29,999	21%	5%	95%	0%
$30,000 to $39,999	16%	8%	92%	0%
$40,000 to $49,999	9%	10%	89%	0%
$50,000+	6%	19%	81%	0%

Taxable Income	**Independents without Dependents**				**Independents with Dependents**			
	% of Recipients	**Pell Increases over $250**	**Pell Within +/- $250**	**Pell Decreases over $250**	**% of Recipients**	**Pell Increases over $250**	**Pell Within +/- $250**	**Pell Decreases over $250**
All	100%	1%	99%	0%	100%	0%	100%	0%
$0 to $9,999	70%	1%	99%	0%	41%	0%	100%	0%
$10,000 to $19,999	28%	2%	98%	0%	25%	0%	100%	0%
$20,000 to $29,999	2%	5%	95%	0%	17%	0%	100%	0%
$30,000 to $39,999	0%				10%	1%	99%	0%
$40,000 to $49,999	0%				5%	1%	99%	0%
$50,000+	0%				2%	2%	98%	0%

Note: This analysis measures the impact of dropping all six asset questions, while making students with assets above $250,000 ineligible. Only students with positive Pell awards under either the existing formula or the proposed revision (or both) are included in the tabulation. Numbers may not sum to 100 percent because of rounding. Blank cells correspond to income groups with fewer than 0.5% of all observations.
Source: CEA-NEC analysis of 2007-08 FAFSA data.

Table A3:
Distribution of Changes in Pell Amounts When Existing Asset Questions are Replaced with a $250,000 Limitation on Assets and Income Adjustments Unavailable from the IRS are Eliminated

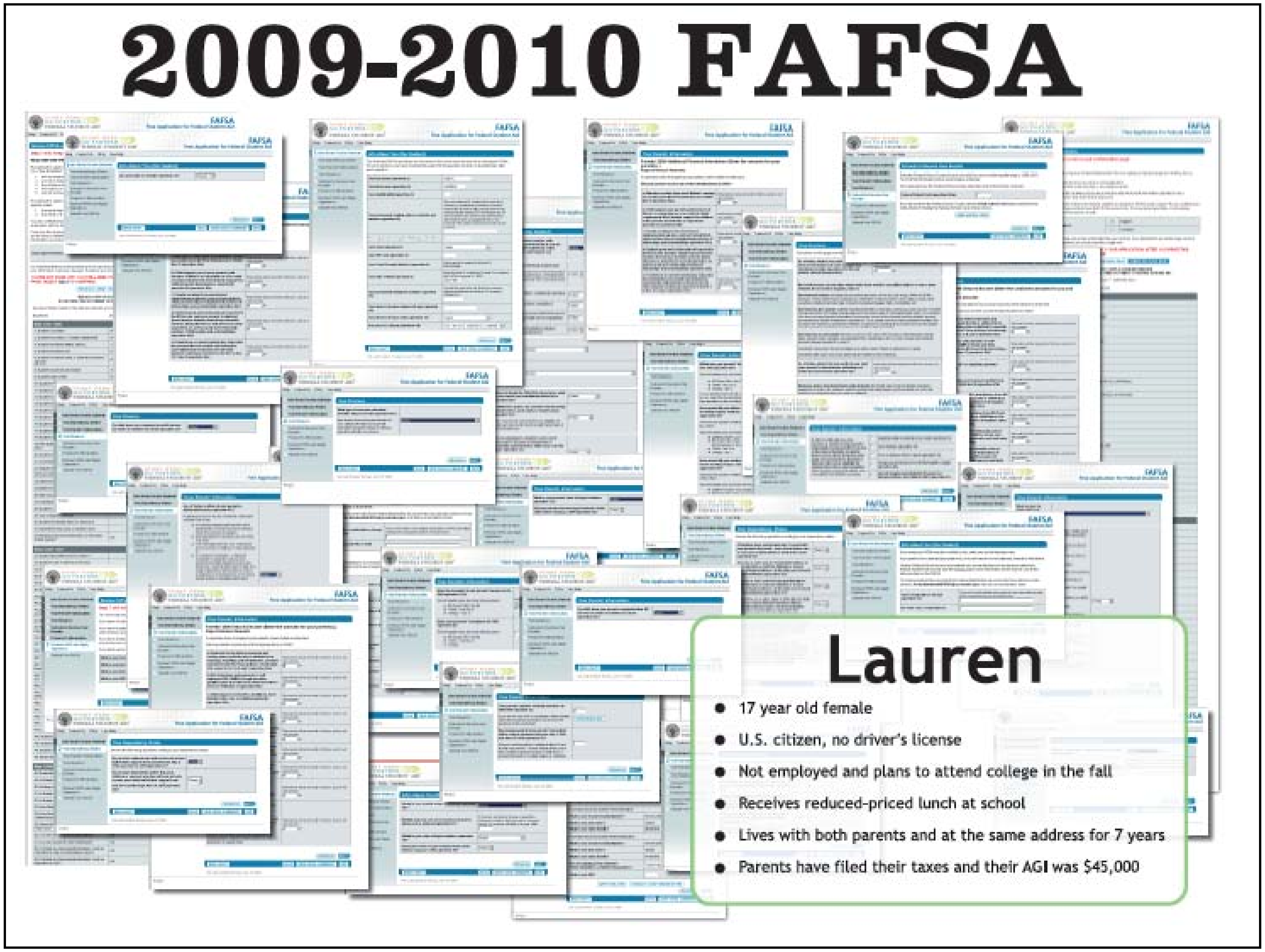
	Dependents			
Taxable Income	**% of Recipients**	**Pell Increases over $250**	**Pell Within +/- $250**	**Pell Decreases over $250**
All	100%	36%	61%	2%
$0 to $9,999	23%	3%	96%	1%
$10,000 to $19,999	22%	6%	93%	1%
$20,000 to $29,999	19%	42%	56%	2%
$30,000 to $39,999	16%	66%	30%	4%
$40,000 to $49,999	11%	77%	18%	5%
$50,000+	9%	84%	12%	5%

	Independents without Dependents				Independents with Dependents			
Taxable Income	**% of Recipients**	**Pell Increases over $250**	**Pell Within +/- $250**	**Pell Decreases over $250**	**% of Recipients**	**Pell Increases over $250**	**Pell Within +/- $250**	**Pell Decreases over $250**
All	100%	7%	88%	5%	100%	6%	91%	3%
$0 to $9,999	70%	7%	91%	1%	41%	0%	100%	0%
$10,000 to $19,999	28%	7%	81%	13%	25%	1%	99%	0%
$20,000 to $29,999	2%	12%	65%	24%	17%	14%	83%	3%
$30,000 to $39,999	0%				10%	19%	72%	9%
$40,000 to $49,999	0%				5%	22%	64%	14%
$50,000+	0%				2%	24%	54%	22%

Notes: This analysis measures the impact of dropping all six asset questions and all questions from Worksheets B and C, nine of which are not available from IRS, while making students with assets above $250,000 ineligible. Only students with positive Pell awards under either the existing formula or the proposed revision (or both) are included in the tabulation. Numbers may not sum to 100 percent because of rounding. Blank cells correspond to income groups with fewer than 0.5% of all observations.
Source: CEA-NEC analysis of 2007-08 FAFSA data.

Figure A1: Current FAFSA and New FAFSA Compared (continued on following page)

Current FAFSA on the Web



New FAFSA on the Web with Skip Logic

2010-2011 FAFSA

22 Questions Not Presented To Applicant
28% Reduction in Questions Presented
20 Web Screens Eliminated from Applicant Experience
67% Reduction in Web Screens Presented

Source: U.S. Department of Education.

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